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BRITISH EXPERIENCE WITH EXCESS PROFITS TAXATION

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The only invention of consequence developed during the war in the field of finance is the special taxation of excess profits. This innovation has proved itself to be a remarkably effective device for producing large revenues and has achieved a degree of popularity with the public generally because of various economic and social effects which have been attributed to it. The question is now sharply raised regarding the future of this tax. There are those who believe that this highly specialized war machine should be abandoned on the battlefield as incapable of performing any useful function in time of peace. Others believe that this particular sword may be beaten into a plowshare, or, in more modern phraseology, that though designed as a tank this tax can be made to operate efficiently as a tractor. To arrive at a wise solution of this question is the most important fiscal problem of the present Congress.

Recently those who favor the abandonment of the tax have begun an active agitation for its immediate repeal. A report of the Chamber of Commerce of the State of New York urges the "elimination of taxes which tend to interfere with the accumulation of industrial capital"¹ and the interpretation of those who prepared the report makes it clear that the excess profits tax is the particular object of attack. The National Association of Credit Men has urged that the tax be repealed in such a way that it will not apply even to 1919 incomes. Even the Secretary of the Treasury has joined the opposition and in his report, made public on December 4, recommends the "elimination or reduction" of the excess profits tax. His indictment of the tax reads: "It encourages wasteful expenditure, puts a premium on over-capitalization and a penalty on brains, energy, and enterprise, discourages new ventures and confirms old ventures in their monopolies. In many instances it acts as a consumption tax, is added to the cost of production upon which profits are figured in determining prices, and has been, and will, so long as it is maintained upon the statute books, continue to be, a material factor in the increased cost of living."²

On the other hand, representatives of the large farm interests have

¹ *Report on High Cost of Living*, p. 5.

² *New York Times*, December 4, 1919.

included in their legislation program the "democratic financing of the war cost by the retention of the income and excess profits taxes and a higher tax on land held for speculative purposes."³

The agitation for repeal, upon analysis, proves to be divided in aim.

1. It is directed partly against taxation as such, raising the question as to the size of the total taxes to be imposed by the federal government, which question in turn disintegrates into problems of debt policy and amortization, of the scope of public functions, and of economy in governmental expenditure.

2. The agitation seems to be directed against the policy of business taxation in general, questioning the scientific soundness of taxes on industry as compared with possible alternatives, particularly increased income tax rates and the so-called "consumption" taxes.

3. Finally, the agitation is aimed in part against the excess profits tax itself as a specific form of business taxation. This attack brings into view all of the problems of the fiscal, economic, and social effects of the present measure and suggests the possibility of adopting alternative business levies such, for example, as a tax on corporate profits either at a flat rate or on a progressive scale but without any attempt to weight the burden according to the excessiveness of the profits.

Surely this is a problem whose characteristics commend it to the attention of economists. Thus far the analysis and appraisal of the character of the tax have been left almost entirely to those upon whom its burden rests and the resulting analysis can scarcely be termed scientific or the appraisal dispassionate. The difficult and complicated questions of theory involved are themselves sufficient to mark this problem as one for distinctively professional analysis. This paper does not attempt such an analysis and appraisal. It merely introduces the problem and presents material which it is hoped will be helpful in reaching an accurate and trustworthy solution.

Foreseeing an agitation for the repeal of the present measure and realizing the importance which the issue was bound to assume, the Committee on War Finance of this Association decided in the spring of 1919 to supplement its previous investigations into the operation of the excess profits tax in this country by conducting an inquiry into the British experience. England was the first to establish a war tax on excess profits, has administered it for five years, and has raised enormous sums of money by its use. In meeting our own problem it seemed desirable to be informed how the British view their undertak-

³ *New York Times*, December 15, 1919.

ing, what they consider to be its advantages and disadvantages, what they think its economic effects have been, how they meet some of the technical problems which trouble us in the administration of our law, and how they expect to decide the question as to the future of profits taxation in their country. A report, soon to appear, will present in detail the results of this investigation. This paper summarizes some of the more significant of the conclusions.

Contrary to the general impression, the British do not expect to abandon their profits tax. Instead they plan to refine it and put it on a permanent basis. This statement would doubtless occasion some surprise even in England, for most business men and others not closely familiar with details of the government's fiscal problem appear confident that in his next budget speech Mr. Austen Chamberlain will entirely abolish the tax which last year he reduced from 80 per cent to 40 per cent. A careful examination of what Mr. Chamberlain said when he introduced the 1919 budget shows that, far from promising the abandonment of the tax, he definitely forecast its continuance in some form. What the investigator learned in the course of his survey has convinced him that within the next few months excess profits taxation will be firmly established as a part of England's peace-time financial system.

This forecast assumes that there will be no unexpected political developments such, for example, as the sudden accession to power of a Labor government before next budget time. If the Labor Party should win control, a heavy capital levy will probably be attempted instead of the continuance of profits taxation. Indeed a modified form of capital levy is not beyond the range of possibility even though there is no change in the political complexion of the government.

The significance of this news, interesting though it is, may easily be overestimated. That England, with her more desperate financial situation, expects to resort to profits taxation to balance her budget is no reason of itself for the continuance of that form of taxation in this country. If the British tax is to persist, it is not because the officials are attracted to the system on the ground of administrative advantages. Indeed Somerset House will approach the task of placing this tax on a permanent basis with a spirit of humility and a heart full of foreboding. It is not because the business community likes the tax. On the contrary the business men become rampant at the mere mention of the possibility of the tax being made permanent. It is not because the public generally is enthusiastic about the measure. The belief that

it is in part responsible for the high prices is so widespread that the tax had apparently lost much of the general popularity it at one time possessed. It is not because the radical labor leaders demand the tax, because they are not in the slightest degree interested in it, having their aim directed at bigger game, namely, the nationalization of the mines, the railways, and the means of production in general. The chief reason why the British will probably continue excess profits taxation is that they need enormous sums of money and the alternative methods of raising it seem to carry still greater objections than the profits tax itself. It is not the positive attraction of the profits tax but the revulsion from the idea of a capital levy or a system of consumption taxes which decides the issue. In other words while they do not find the frying pan comfortable, they prefer it to the fire.

In recognizing all this, however, we must not lose sight of the fundamental fact that the British, in arranging their financial alternatives, place the profits tax high in the order of preference above such imposts as luxury taxes and high tariffs. Indeed their luxury tax, which served as a model for our own, was finally considered too bunglesome to deserve a trial and has never been put into operation. We, on the other hand, with a luxury tax actually with us and a tariff struggle in the offing, may well take the British decision into our reckoning.

Finally, the news of the English decision will doubtless be considered important by those who are convinced that the profits tax is an important element in the determination of prices. For Americans in business competition with the British there may be comfort in the thought that English prices will continue to be subject to this influence. If the tax has any international competitive significance—and it probably has little if any—we probably need not be deterred from continuing our impost by fear of placing our business at a disadvantage in comparison with that of England.

The form which the new British profits tax promises to assume is of greater interest and importance than the mere fact that the British expect to make the tax permanent. To many it may appear strange that they should turn to America for their model and that they should find the principles underlying our own much abused profits tax of 1917 best suited to their needs. Yet in England it is recognized that the standard of pre-war earnings, the distinctive feature of their law, has become more and more anomalous with each passing year and that the standard of invested capital, the distinctive feature of our profits-tax law—whatever else may be said of it, or against it—is one which is as well adapted to a permanent or to a temporary tax. Conse-

quently in the proposal which at present holds most promise of being enacted into law the British have incorporated the invested capital standard.

If the British continue profits taxation they will make the rates moderate as compared with the war tax. It will be recalled that at its peak the British excess profits duty carried a rate of 80 per cent on the excess over the pre-war standard. It is said that at one time of political crisis during the war a rate of 100 per cent was seriously proposed and was only avoided by the insistence of the officials of the Inland Revenue that such a tax would be impossible to administer. It must be borne in mind also that the income tax of 6 shillings in the pound, or 30 per cent, applies to what remains after the excess profits tax has been collected, as compared with our own corporation income tax of 12 per cent, reduced this year to 10 per cent. This fact together with the differences in practice with regard to the taxation of appreciations in property values and the alternative rates under the American law make impossible an exact comparison between the weight of the English and American taxes. Their 40 per cent rate applying this year is expected to yield about £50,000,000. The probability is that the British will attempt to continue indefinitely the yield of the tax at about this figure. To secure this sum by a profits tax with an invested capital standard it will apparently be necessary to levy progressive rates on a scale which corresponds very closely with that of our 1917 excess profits tax law. The British expect to be able to administer successfully a tax of this weight.

The British proposal meets a number of the difficult problems connected with profits taxation in a manner which is in some instances suggestive. For example, they can see no justice in making the tax apply to corporations only as is the case under our present law. Again, they feel that the problem of business concerns with little or no invested capital can be fairly well met by utilizing a sliding scale of salary allowances instead of exempting them as we do. The distinction between a profession and a business is one which troubles them sorely, but nevertheless they consider it possible to establish the differentiation in a fashion approximately equitable. The fact that appreciations of property values are not considered taxable income in England raises a problem for them which has not troubled us seriously here. If they are to recognize as invested capital the full amount paid for assets, tangible and intangible, by the purchaser of a business, they realize that their new tax would be widely evaded unless it were coupled with some type of special increment tax upon the profit from

the sale, imposed at the time of transfer. The difficulties of arranging such a tax, which in our case are cared for automatically in a fairly satisfactory manner under our income tax, lead them to favor the adoption of the rule that assets shall be valued at cost to the original owner even after having been transferred to the new purchaser.

The effects of heavy profits taxation which were discernible in England in the summer of 1919 do not conduce to optimism with regard to the future of the proposed new tax. There was much evidence that the war tax had been repressive, that it had led to extravagant and wasteful expenditure, that it had been largely evaded. With regard to its effects upon prices the situation was far from clear. There is reason to believe, however, that many of the ill effects are not the necessary and inevitable consequences of profits taxation but are rather to be attributed to the heavy weight and the temporary character of the tax now in force.

The British tax has had no acute effect upon business stability. Businesses have not been forced into bankruptcy by the Excess Profits Duty and there has been but little borrowing to meet the payments. But this is due primarily to a collection policy which is in marked contrast to our own. In England the Treasury has been given discretion to arrange convenient terms of payment. In cases where it is difficult for the taxpayer to meet his obligations, he lays his case before the officials of the Inland Revenue and receives such concessions as they consider appropriate. This gives an elasticity to the system which has doubtless prevented much distress.

This delegation of authority to postpone collections has very serious counter effects, however. The privilege has been abused. As a consequence of the liberal attitude of the Inland Revenue, the arrears from this levy have accumulated until they now amount to approximately £200,000,000, four times the amount expected from the 40 per cent rate in force this year. Our own rigorous collection policy has caused some inconvenience, it is true, but there will not be many who would favor copying English practice on this point. We can congratulate ourselves that the problem of enormous arrears is not one of our financial problems of reconstruction.

What the less immediate effects upon business stability have been can not accurately be determined. It is obvious, however, that huge sums, a substantial portion of which would otherwise have gone toward strengthening and expanding business undertakings, have been

rendered unavailable for this purpose and consequently business in the aggregate must be less well established and safeguarded than would have been the case had the tax not been imposed at all. Whether they are less well established and safeguarded than they would have been under some alternative tax producing the same revenue is open to question.

Precisely what effects the profits duty has had upon prices it is impossible to say. The English newspapers are full of complaints placing upon the tax a large part of the responsibility for the prevailing high prices. Sidney Webb asserts that such statements, so far as they refer to commodities not under government control, spring from "sheer ignorance" and most of the economists agree with him. Business men, however, almost universally testify that the tax has influenced them to increase their prices. They claim that by a curious inversion the tax, designed in part as a corrective of excess profits, becomes itself a cause of excess profits. But in some of these cases one suspects that the tax has been seized upon as an excuse for monopoly prices which would be just as high in the absence of the levy and that the argument represents at once an apology for past greed and a plea for future exemption from just burdens. One manufacturer told the investigator that his concern, suddenly finding itself after a number of lean years in possession of a large stock and confronted with a demand so great that it could not possibly meet it, was in a position where it could ask almost any price it chose for its product, and the fact that the profits duty had to be paid influenced his directors to charge a higher price than they otherwise would have asked. Such tender-hearted tyros at profiteering who depend on the tax to give them moral courage to charge what they can get for their goods in the market are probably rare economic phenomena and, moreover, unless they happen to be selling directly to the consumer⁴ anything they refrain from adding to their price is probably added to it by the next man in the marketing chain, so that the ultimate retail price is no lower.

On the other hand, another manufacturer testified that he had deliberately reduced his prices to avoid the tax, expecting by offering his goods at very reasonable rates to build up a good will which would yield added returns later when the profits tax had disappeared.

It is not easy to understand how a tax which is imposed only after moderate profits have been accumulated can operate in an important and direct fashion as a cause of high prices, if the market is freely

⁴ This point has been convincingly stated by Dr. T. S. Adams on various occasions.

competitive. Even in a seller's market such as exists in many lines today, the power to charge a high price is not dependent upon the existence of such a tax. There probably are long-time, indirect effects in the direction of increased prices from a business tax such as this. The slightest repression on enterprise—and this tax undoubtedly does exercise some repression in the long run—would be expected to have such effects, but it seems very doubtful whether these indirect, remote forces have as yet become effective in this country.

There is general agreement in England that in the case of commodities manufactured under government contract, especially during the earlier years of the war, the excess profits duty was very often taken into account in arriving at a price. That is, the manufacturer usually considered the excess profits duty an expense and succeeded in securing terms which left him after paying it about the amount of profit he would have striven for had the tax not been in existence. Consequently the tax in England was to a considerable extent illusory, the government itself creating the profits which it took back in taxes.

Methods of dodging the excess profits duty, aside from shifting it in the form of higher prices, are endless in variety and marvelous in ingenuity. At one extreme stands the device of the prosperous factory owner who declines to exert himself because the taxes upon profits resulting from additional effort leave him too little to tempt him to further activity. This is a form of avoidance which can scarcely be classified as evasion and which is impossible to prevent or punish. At the other extreme stands the petty, crude stealing of the small business man who puts his family on his payroll at fat salaries for nominal duties or refrains from recording on his books some of his more profitable transactions.

Between these two extremes lie devices representing every degree of variation in legitimacy and legality. An owner of a rubber plantation postpones tapping his trees until the profits tax shall have disappeared. The factory owner spends his excess profits, otherwise subject to tax, for almost any purpose which, while it can be classified as an expense chargeable to the present year's income, may nevertheless result in increased profits in that future time when profits taxes will be no more, or in an improved goodwill which can be sold at any time as a part of the business assets under the English law without the profit becoming subject to income tax on profits duty. This is the explanation of the heavy advertising which has been a striking feature of war-time England. The manager of a large commercial house explained in this way the decision he had made to seize this

opportunity for establishing a large number of branch agencies which would for the first few years be losing ventures. If the excess profits duty has depressed those businesses which promise quick returns it has at the same time stimulated other businesses which offer deferred profits.

Renovations and repairs are made on a lavish scale. To paint one's establishment with one's taxes is the accepted procedure. Greatly increased salaries are paid, especially in the case of those employees who will be likely to remember the employer's generosity and tacitly accept it as advance payment of salary. One foreman chuckled over the four entirely unexpected and admittedly undeserved bonuses which had fallen into his lap during the last year.

These expenditures for purposes which promise future rather than present returns shade off into mere wasteful extravagance. When the government took £86 out of the £100 of an excess profit (that is, 80 per cent profits duty plus income tax at six shillings in the pound) the tendency was to buy any article selling for £100 which had a value to the taxpayer of £14 or more. Even with the profits tax rate reduced to 40 per cent, the income tax and profits duty take together 58 per cent of the excess profit. As one business man remarked, there seems to be some magic about the 50 per cent mark. If the government takes more than half of the pound of profit, abuses develop.

In England when one concern buys out another the pre-war records of the two concerns are amalgamated and form the standard by which to measure the excess profits of the combined businesses. This has led to a lively traffic in bankrupt or near-bankrupt concerns which were prosperous before the war. There is competition for the privilege of using the pre-war records of these unprofitable businesses.

There has also been a very strong tendency to escape the tax by undervaluing inventories. One merchant cites the case of a business he had recently acquired where the stock valued for tax purposes at £3000 was easily worth nearly double that sum. A large manufacturer testified that materials in the process of manufacture had almost disappeared from the accounts of many plants, such items being easy to manipulate with little danger of detection by the officials of the inland revenue.

All accounts agree that there was comparatively little outright evasion of the profits duty during the war. Since the armistice, however, an entirely different spirit has been present. Whereas before evasion of the tax was considered little short of treason, the circumven-

tion of the statute has now become a fascinating game at which large numbers apparently try their hand. Whether evasion can be prevented is a question upon which there is the greatest difference of opinion. The Hon. Reginald McKenna, who, when Chancellor of the Exchequer, introduced the profits tax, remarked that the Inland Revenue had been since 1842 building up an income tax which would prevent evasion and that it would require another hundred years to devise a successful method of administering a profits tax! On the other hand it must be recognized that many of the devices enumerated above are designed to postpone the yield of the business until the profits tax has been abolished. If the tax were made permanent, the efficiency of all such arrangements would disappear. Again, the wastefulness and extravagance in expenditure attributed to the tax is caused by the heaviness of the rates. The prevention of evasion would be an entirely different problem if the tax were expected to continue indefinitely and if the rates were made moderate.

The evasion just described has developed in spite of better administration than we have in this country. There is no opportunity here to describe in detail the English administrative organization, but it should be made clear that they have succeeded in evolving a system under which every taxpayer need not be an expert in income and profits tax procedure in order to be assured of having his interests properly cared for. Local assessments are made by highly skilled permanent civil servants in whom the taxpayer can place confidence. The attitude of this local official is not one of suspicion and distrust, of impatience with peculiar difficulties, and of rigorous adherence to the letter of the statute, irrespective of its spirit and intent. He is a man familiar with business practice and vested with considerable discretion. He approaches the taxpayer in a spirit of helpfulness and intelligent understanding. He may arrive at decisions which are binding and may make compromises which will stand. Through assessments determined in conference with this official a degree of certainty is introduced into the procedure which is a refreshing contrast to our own situation. If we could develop officials of similar quality to the English local surveyor and could decentralize the assessment as the English have done, much of the present dissatisfaction with our income and profits taxes would disappear.

Not only are the assessments determined in a more efficient manner than our own, but cases of dissatisfaction with the decisions of local assessors are dealt with in a fashion worthy of imitation. In case a

taxpayer desires an appeal he is neither compelled to complain to those who have perpetrated the alleged wrong against which he is protesting nor forced into a court of law. He may instead lay his case before a board made up of men who are not treasury officials at all and who will decide the issue in the spirit of arbitration. Moreover this is done near the taxpayer's home. It is not necessary to make a long and expensive trip to the capital of the country.

To meet certain of the general problems connected with the administration of the excess profits tax, the British established a Board of Referees. As originally set up, this tribunal was to consider only applications for increases in the statutory percentages allowed as a credit on capital invested in industries surrounded by conditions which merited special allowances. Only the representatives of entire industries were heard. This Board has earned an enviable reputation for itself and its functions have recently been considerably enlarged.

Much of the favor which was attained by our Excess-Profits-Tax Reviewers and by our Advisory Tax Board was due to the fact that they had a certain aloofness from the Treasury. They did not take the ordinary bureaucratic attitude toward the problems put before them. In spite of the fact that they were Internal Revenue officials they could be counted upon to take a large, unbiased view of the taxpayer's problem. The discontinuance of the Advisory Tax Board is exceedingly regrettable unless its temporary absence makes it even more easy to secure some arbitrating body of a character similar to that of the British Board of Referees.

The British have avoided many of our difficulties by a greater broadness and flexibility in their statutes as well as in their administration. Illustrations of their common-sense view as contrasted with the policy of strict adherence to book facts are the provisions permitting the deduction in a given taxable year of repairs postponed because of abnormal conditions and the scheme for allocating the income from a long-term contract over the entire period of accrual.

In a complete and well-considered estimate of the success of the English duty it would, of course, be necessary to take into account both the tremendous productivity of the tax and the very important rôle it has played in reconciling labor to a program of war production. The duty owed its existence very largely to the necessity of placating labor. But for its success in this direction the war might have been lost.

In neither England nor the United States are the possibilities of the

device appreciated as a means of securing certain of the advantages of socialism without the attendant disadvantages.

The investigation has yielded considerable technical information relating to procedure under the English Excess Profits Duty which is set forth in detail in the report.⁵ Some of this material has already been found useful to the Bureau of Internal Revenue. Moreover, testimony was received regarding a number of questions of policy and practice under the income tax law, including such topics as the attempt to distinguish capital appreciations from income for tax purposes, the differentiation between earned and unearned income, the operation of the system of abatements and the system of collection-at-source, taxation on the basis of the three-year average, and the taxation of foreign corporations with agencies in Great Britain. As these are questions which now press for consideration in the recasting of our income tax law it has been considered desirable to include a treatment of them in the report.

The main conclusions to be drawn from British experience with profits taxation may be summarized briefly as follows:

1. In England they think highly enough of profits taxation to contemplate its continuance. The general principle of such a tax, tersely described by Dr. J. C. Stamp as "a preliminary skimming of the richer crocks of cream," is one which appeals to them as worthy of incorporation into their permanent system in view of their present difficult financial condition.

2. They believe their present profits tax with its standard of pre-war earnings to be anomalous and out of date. Some adaptation of our own standard of invested capital is in their opinion the best test to apply in seeking to determine the relative richness of the crocks of cream.

3. They appreciate the fact that differentiation between classes of business and special treatment of unusual individual cases are essential in a tax of this type. The burden must not apply with full rigor to profits won at great hazard. Some crocks of cream appear to be richer than they are. The necessary flexibility can, they believe, be introduced in part through the operation of a body like their Board of Referees with powers to make concessions applying to industries as a whole, and in part by a broad policy (both in statute and in administration) with respect to individual cases of hardship.

⁵ This material has been prepared for publication by Mr. George E. Holmes, of the New York Bar.

4. The tax, they believe, must be reasonably light. British experience confirms our own that a very heavy tax inevitably leads to extravagance, which reduces the total amount of cream available for skimming.

5. The tax to be successful must be permanent in character. The English realize that a temporary tax can be easily avoided. The production of the cream can and will be postponed by a variety of devices if there is a rational certainty that the skimming policy is shortly to be abandoned.

6. Finally, they concede that such a tax bristles with administrative difficulties so great as to challenge the skill of even so admirable an organization as England's civil service. The British, however, feel that their service will successfully meet the challenge.

The application of these conclusions to our own fiscal situation and the formulation of a definite recommendation as to what we should do about continuing profits taxation involve an analysis too elaborate for complete presentation in this paper. The writer may be permitted, however, to point the moral which he thinks should adorn the tale, even though there is not time to tell the entire story.

1. The Secretary of the Treasury insists that total tax revenues must not be reduced for the present. Congressional leaders seem disposed to agree with him. The abolition of our profits tax is consequently dependent upon the production of a more attractive substitute. The two proposals which have thus far appeared are Senator Smoot's general sales tax and Secretary Glass's increase in the normal income tax rate. Neither of these methods would raise the sums now produced by the profits tax without involving, in the opinion of the writer, worse evils than those which we are now enduring under our profits tax. However, the evils of the two suggested alternatives are of the type which immediately and primarily affect the general public rather than the business classes as such. A sales tax would involve, in a word, a consumption tax whose burden would be distributed for the most part in a haphazard and unscientific manner in the form of increased prices. On the other hand, an increased normal income tax rate would have many ill effects. In the first place it would put an enormously increased strain on the already wobbly administration. An increase in the normal rate to, say, twice or three times the present rate would make the income tax alone a more different administrative problem than the present combination of income plus profits tax. It would, unless coupled with some complicated system of abatements, eliminate the progressive principle from the lower ranges of income

tax rates, where the principle is of greatest importance. Finally, its net effect would be a shifting of the burden now borne by investors to earned incomes of moderate size, exactly the group hardest hit by the present increase in prices. As compared with either of these alternatives the writer believes that it would be better to continue the policy of skimming the richer crocks of milk.

2. However, this assumes that the present revenue yield should be maintained. The wisdom of this should be challenged in a much more vigorous manner than has thus far been done. The present yield should not be maintained unless a very large portion of it is to go for amortization purposes, and it is doubtful whether it should be maintained even for that purpose. The suggestions for a national budget and for an efficiency audit may result in some saving, but in addition to this there must be borne in upon Congress the necessity of rapidly reducing our swollen expenditures. "The road to ruin" should be turned into a dramatic slogan for retrenchment here as has been done in England. A reduction in expenditure would make possible a reduction in excess profits tax rates, which would go far toward eliminating the objections which exist at present to that tax.

Certainly we should abandon all thought of continuing profits taxation, however, unless we are prepared to take radical action in the direction of the improvement of our administration. Indeed improvement in this direction is imperative irrespective of the question of the continuance of the profits tax. If the income tax itself is to be saved from a degeneration equal to that of the general property tax in our states today, something must be done to build up an organization which, without the present amount of trouble, cost, and irritation to the taxpayer, will determine accurately and satisfactorily what taxable income is. In this matter we should sit at the feet of the British and learn what they have to teach us. Especially should we strive to secure for our country their system of original assessments by skilled, permanent, responsible civil servants and their system of appeal and review conducted on the principle of arbitration by persons not connected with the Treasury.

The appeal system could be inaugurated without great difficulty and delay. The assessment plan can probably be established only through the general improvement of our civil service. Support should be given to both by all who feel that it is desirable to continue to raise our federal revenues by direct taxes on either incomes or profits.